

# Unconventional Monetary Policy Measures – Selected Issues

Session 6: Non-conventional monetary policy, macroprudential policies and their impact on liquidity of government debt

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# Unconventional monetary policy measures – Comparison

	Unconventional Monetary Policy Measure	EUSY	FED	BOJ	BOE
1a	Extended period of very low <b>interest rates</b>	X	X	X	X
1b	Forward guidance on <b>interest rates</b>		X		
2	Provision of <b>longer-term liquidity</b>	X	X	X	X
3	Purchases of <b>government securities</b>	X	X	X	X
4a	Purchases of <b>covered bonds</b>	X			
4b	Purchases of <b>asset-backed securities</b> (including MBS)		X		
4c	Purchases of <b>non-financial corporate debt</b>			X	X
4d	Purchases of <b>other assets</b> (agency debt, ETFs, REITs, CP etc.)		X	X	X

# Selected unconventional monetary policy measures – ECB's objectives

- **General approach: appropriate measures depend on structure of credit markets**
  - In the euro area, the **role of banks is more important** than in the US (about two thirds of financial intermediation via banking system, much less so in the US).
- **Provision of longer-term liquidity; covered bond programs**
  - Maintain sufficient bank intermediation and provide longer-term bank financing in times of stressed funding markets (prevent forced deleveraging, i. e. fire sales); sustain key bank funding channel.
- **Government bond purchase program SMP**
  - Address malfunctioning of securities markets and safeguard appropriate monetary policy transmission mechanism.
- **Government bond purchase program OMT**
  - Safeguard appropriate monetary policy transmission and singleness of monetary policy; elimination of “redenomination risk”, the unwarranted perception of a risk of euro breakup.

# Unconventional monetary policy measures – Selected risks

## ■ Impact of sustained low interest rates

- Banks have incentives to delay balance sheet restructuring
- Reduced pressure on authorities to implement rigorous bank restructuring
- Market functioning distortions (in particular allocation function)

## ■ Impact of asset purchases, provision of longer-term liquidity

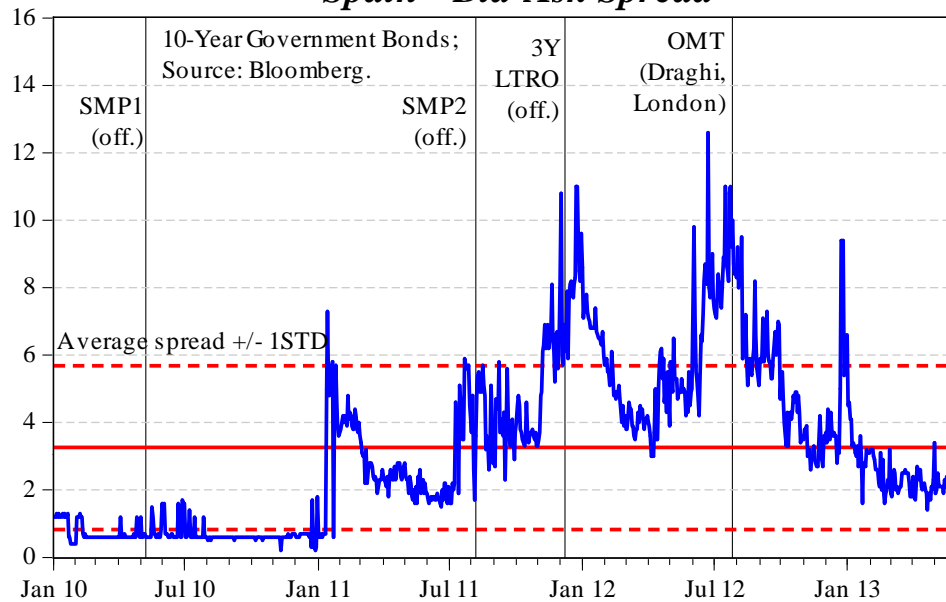
- Large increase of bank liquidity could cause banks' addiction to central bank funding
- Bank balance sheet restructuring and restoration of interbank market delayed
- Shift of credit risk away from private sector into books of central banks and finally the tax payer
- Market functioning distortions, drying-up of markets, lack of good-quality collateral

## ■ Exit risks

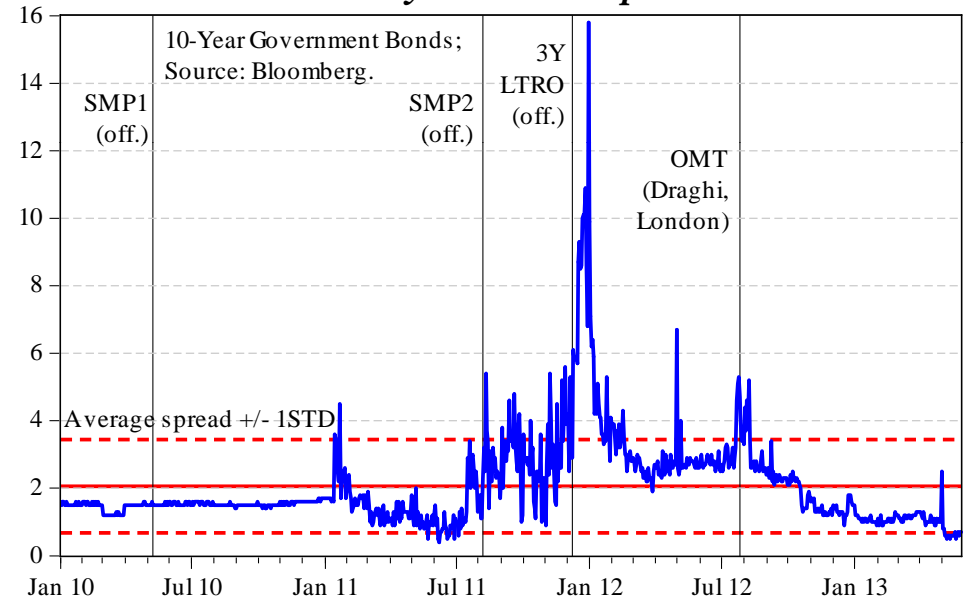
- Increased credit risk for banks (impact of higher interest on NPL), losses on “available for sale” fixed rate securities due to rising interest rates
- Bank funding challenges, reduction of excess liquidity particularly exposes most vulnerable banks
- Underlying structural issues must be addressed by market participants

# Unconventional monetary policy measures – Liquidity in euro area government bond markets (1/2)

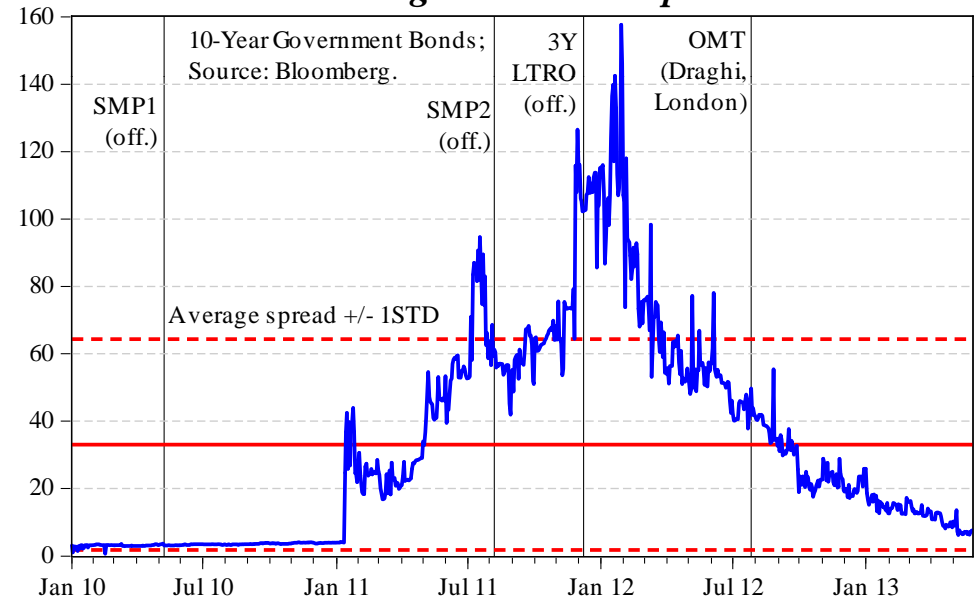
*Spain - Bid-Ask Spread\**



*Italy - Bid-Ask Spread\**

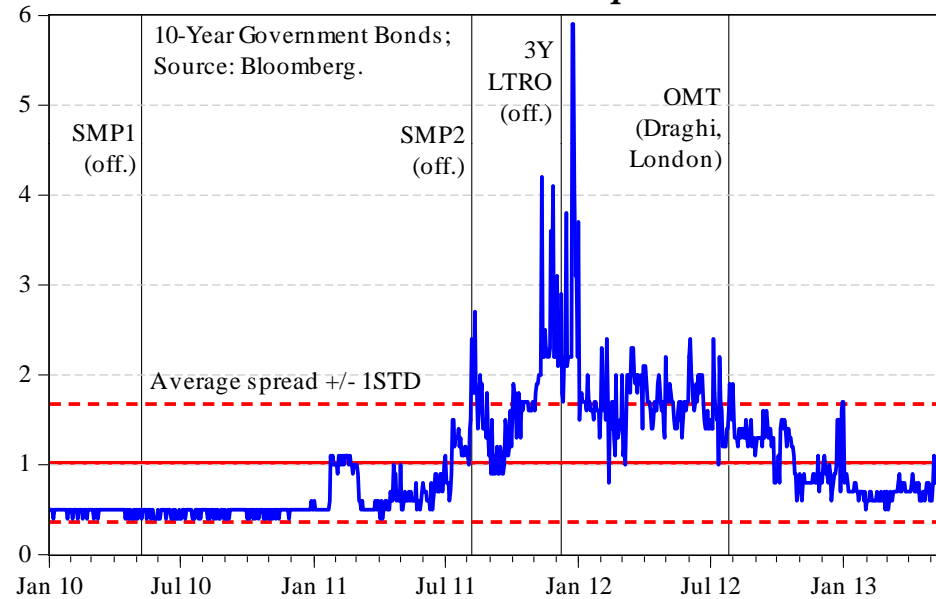


*Portugal - Bid-Ask Spread\**

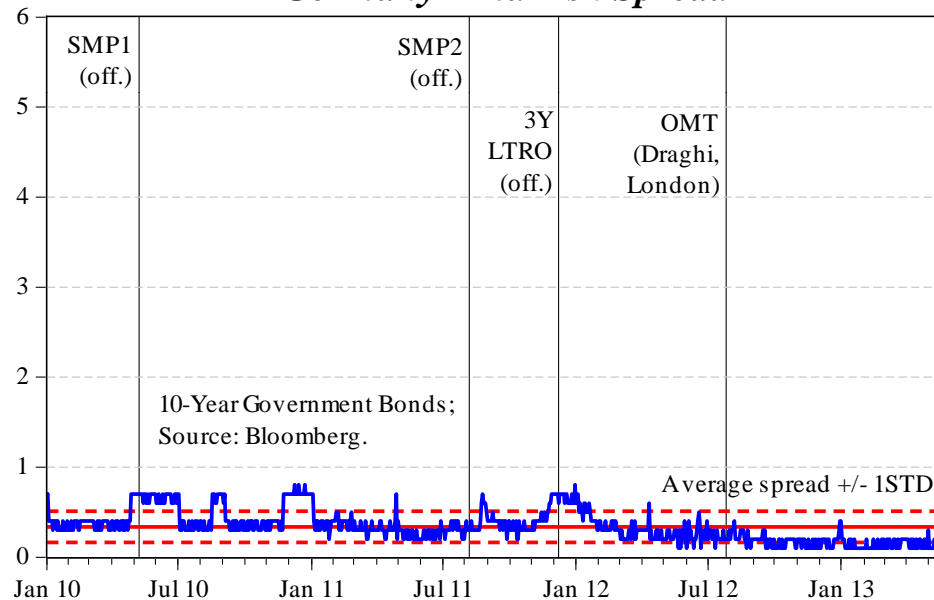


# Unconventional monetary policy measures – Liquidity in euro area government bond markets (2/2)

*France - Bid-Ask Spread\**



*Germany - Bid-Ask Spread\**



## Final remarks ...

**Börsen-Zeitung**

20.05.2010

**INTERVIEW MIT LORENZO BINI SMAGHI, EZB**

### „Das ist Geldpolitik des 21. Jahrhunderts“

▪ Und was machen Sie, wenn die Fiskalpolitik sich nicht besinnt? Die Schuldenberge werden immer höher, und die nächste krisenhafte Zuspitzung an den Märkten ist nur eine Frage der Zeit. Dann müssen Sie das gesamte System doch schon wieder retten...

Es ist nicht die Aufgabe der EZB, das Gesamtsystem zu retten. Die Regierungen haben einen Finanzierungsmechanismus festgelegt, um Kredite zusammen mit dem Internationalen Währungsfonds (IWF) zu vergeben - natürlich unter strikten Auflagen.

Allem Anschein nach sind die Regierungen aufgewacht. Dies könnte ein positives Element der Krise sein, die alle entwickelten Volkswirtschaften betrifft.

**It is not the task of the ECB to rescue the whole system. Governments have agreed on a mechanism to grant loans, of course subject to strict conditionality, in cooperation with the IMF (...)**

Lorenzo Bini-Smaghi,  
Member of the Executive Board of the ECB,  
Interview with Börsen-Zeitung,  
published on 20 May 2010.